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OCEAN FREIGHT RATES

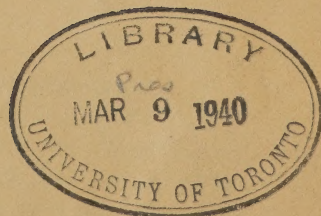
REPORT BY

H. L. DRAYTON, K.C.

Chief Commissioner

The Board of Railway Commissioners for Canada.

Adm. to Lib. of Parl.



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OCEAN FREIGHT RATES

BOARD OF RAILWAY COMMISSIONERS FOR CANADA,

OTTAWA, October 18, 1913.

The Rt. Hon. the President,
and Members of the Privy Council,
Ottawa.

GENTLEMEN,—I beg to state that, acting on the instructions contained in the report of your meeting, approved by His Excellency the Administrator on the 19th July, 1913, I proceeded to England with the object of discussing with the Imperial authorities the question of governmental control of the charges made by the shipping companies to the public for the carriage of ocean borne freight.

The question was one which had already engaged the attention of the Board of Trade of Great Britain, the conclusions that that Board arrived at being included in the communication from the Marine Department of the Board of Trade to the Under-Secretary of State, Colonial Office, on August 4, 1910. The material part of the conclusion is as follows:—

‘While, for the above reasons, the Board would see great difficulty in the establishment of a joint tribunal for the control of ocean freight rates, they direct me to call Lord Crewe’s attention to the recommendation made by the Royal Commission on shipping rings in paragraph 332 of their report, that to meet the possibility of cases arising where public interests may be grievously affected either by the checking of a trade or by its more or less permanent diversion, the Board of Trade should have power to appoint competent persons to investigate the matter. There seems no reason why His Majesty’s government should not discuss with the Canadian government the question of holding a joint inquiry into the rates charged and the facilities afforded by the shipping companies engaged in the trade between United Kingdom and Canadian ports, either on the lines of the recommendation of the Royal Commission or on the lines of the inquiries provided for in the Combines Investigation Bill, which it is understood has passed through the Canadian Legislature.’

JOINT COMMISSION SUGGESTED.

In view of the conclusion arrived at by the Board of Trade, a preliminary joint investigation, such as above suggested, was essential. The scope of such an inquiry of necessity would cover the whole situation, so as to enable the Commissioners appointed for the purpose to determine whether the rates charged and facilities afforded by the shipping companies engaged in the trade between the United Kingdom and Canada were such as to require some form of governmental control or not.

With this end in view, I endeavored to obtain the appointment of a joint commission to make a thorough and complete investigation of, and to report on the methods and practices, and rates and charges of ocean carriers doing business, or from time to time doing business, between ports in the United Kingdom, or any of them, and ports in the Dominion of Canada, or any of them; and also of all terminal companies or port authorities of any port in the United Kingdom or in the Dominion of Canada through which traffic, whether of passengers or freight, between the United Kingdom and the Dominion of Canada passes; and also to investigate into and report on all insurance charges or other expenses that shippers from the United Kingdom to Canada, or vice versa, are subject to as the case may be.

I further represented that the Commission, in addition to reporting its findings in the above matters, should also recommend what, if any, legislation the Commission deemed advisable should be passed by the Imperial Parliament, or by the Parliament of the Dominion, or by both.

I further represented that it was necessary that the Commission should have authority to sit at such places it might desire, either in the United Kingdom or in the Dominion of Canada, with authority to compel the attendance of witnesses, production of documents, books, papers, etc., and to administer oaths; and also that the Commission should have the right to employ accountants, traffic experts, clerical and other assistance.

I further impressed upon the Imperial authorities that it was the desire of the Canadian Government that the investigation should be entered on in the near future, and, if possible, a report made so as to enable any necessary action to be taken by that government at the ensuing session of parliament. In support of the necessity for an investigation, I relied upon the admitted fact of large increases in rates and the falling off of the ratio of imports from Great Britain to Canada, as well as the large increase of cost to the British consumer certain increases in rates in part worked, the particulars of which I do not now venture to trouble you with.

It will be noted that the investigation as asked was not confined to the freight situation merely, but also covered passenger traffic. In case there could be any exception taken to my request for an investigation on that score, I pointed out that no complaint was made at the instant in so far as passenger rates were concerned, but that, in order to arrive at what a fair, adequate, and reasonable freight rate should be, the sources of revenue, with the expense common to both services, should be considered, and a proper allocation made of expenses so as to distinguish that part fairly chargeable to freight and that fairly chargeable to passenger traffic. This, of course, could not be done unless the passenger figures were placed before the Commission of Inquiry.

In addition to discussing the matter with the Imperial authorities, I also had the opportunity afforded me of meeting the representatives of the different lines that are in conference with each other, and of hearing a statement of their position.

As a matter of fairness to the companies, it is only due to state that the expense of carrying on business in some particulars has largely increased, so that a certain advance would undoubtedly be reasonable if the previous rates only afforded fair returns to the operating companies.

IMPERIAL BOARD OF TRADE'S ACTION.

The action taken by the Board of Trade is shown in the following letter:—

‘I am directed by the Board of Trade to refer to the discussion which took place on August 22 between yourself and representatives of the Board and the Colonial Office on the subject of ocean freight rates, and I am to state that the Board of Trade have carefully considered the arguments and suggestions advanced by you at that discussion.’

‘(2) The offer of co-operation in a joint inquiry which was made in a letter from Lord Crewe to the Governor General of the Dominion of Canada on the 19th August, 1910, appears to have met with no response from the Canadian Government until now; but on the 15th April, 1912, in pursuance of a Resolution passed by the Imperial Conference of 1911 on the motion of the Canadian Prime Minister, a joint Royal Commission was appointed, representing the Dominions and the United Kingdom, in whose terms of reference the question of shipping freights was clearly included. Further, at the meeting of the Imperial Conference at which the resolution moved by the Prime Minister of Canada was under discussion, the question whether the subject of shipping arrangements and means of transport, etc., would be included in the reference to the Commission was expressly raised by the Prime Minister of Australia and was answered in the affirmative by the President of the Imperial Conference. In this connection I am to invite a reference to pp. 339-344 of the Minutes of Proceedings of the Imperial Conference (Cd. 5745).

‘(3) Since their appointment the Royal Commission have visited Australia and New Zealand, and have taken evidence on the subject of freight rates in relation to trade between the United Kingdom and those dominions.

‘(4) In these circumstances, the Board, after consultation with the Secretary of State for the Colonies, feel that it would not be possible at the present stage to advise His Majesty’s government to appoint a second Royal Commission representing Canada and the United Kingdom, only, to investigate a subject which the Royal Commission on the trade of the dominions are already examining and on which it is understood that this Commission will very shortly be taking evidence in Canada. In any event a Commission possessing all the powers suggested by you could not be constituted without legislation, and it could not, therefore, be appointed or get to work until next year, by which time it is understood the Dominions Royal Commission will be visiting Canada.

‘(5) While, however, it is feared that the appointment of a Special Commission of the nature proposed is not possible, His Majesty’s government would be prepared, if desired, to communicate with the Dominions Trade Commission (of which the Canadian Minister of Trade is a member), informing them of the desire of the Canadian Government that the subject of shipping freights, etc., in the trade between Canada and the United Kingdom should be investigated with as little delay as possible. The Board of Trade hope that, in the circumstances, this course will meet the wishes of the Canadian Government.’

DOMINIONS ROYAL COMMISSION MIGHT MAKE INQUIRY.

Might I be permitted to say that, if the Dominions Royal Commission could take this matter up and make an interim report on it, if necessary I do not think the inquiry could be in better hands.

On receiving this advice, I attended on the Chairman of the Dominions Royal Commission, Sir Edgar Vincent, K.C.M.G., who told me that the question of transportation within the Empire was one which his Commission had already taken some evidence on; and that, under the present arrangement, the Commission would be in Canada next August. He also thought that, if necessary, a sitting of the Commission could be arranged at an earlier date, in London, to take evidence.

INVESTIGATION NECESSARY.

Notwithstanding the information which I received from the Conference lines, I am still of the view that an investigation should be held.

For the western movement, the lines forming part of the Conference which are, the Allan Line, the Canadian Northern Railway Steamship lines, the Canadian Pacific Railway Steamship lines, the Cunard Line, the Dominion Line, the Donaldson Line, the Furness Line, the Manchester Liners, and Thompson Line, issue a tariff for the different seasons, the tariff being drawn to include general minimum rates on practically all, or at least on the chief commodities moving. These minimum rates so-called are practically the maximum rates that the lines obtain, and the shipper is in a position to know, as in my view he always should know, what the rate will be on a given commodity within a given period. No such rates are issued in so far as the eastern movement is concerned; but weekly lists are issued from time to time so that it may be entirely impossible for the Canadian shipper to know what his rates on flour or wheat may be in month's time. I have been unable to at all convince the Conference that this is an improper practice in so far as the eastern movement is concerned. The advanced reason why the admitted convenience can be given to the shipper shipping west is that there is never a scarcity of room on the western movement, while there may be a scarcity of space on the eastern movement. The position of the companies shortly is that, with the higher amount of business offering, and the possibility of shortage in boat accommodation, the companies should be allowed to take advantage of the shortage and charge a greater rate for handling the large than would be charged for handling the smaller amount. This practice the companies claim to be necessary. Whether it is necessary or not, it is certainly injurious to Canadian exporters, and is entirely against the usual basis of rate adjustments, at least so far as a land haul is concerned.

It should be noted that, while it is true boats rarely, if ever, get a full cargo going west, during the present season the eastern rates have been so remunerative that a largely increased number of tramp boats have gone to Montreal not carrying English merchandise at all, but simply to get the return eastern cargo.

The effect of the present situation is that when the exporter of this country is not afforded sufficient facilities by the ocean carrier, the exporter is penalized for that situation.

CANADIAN EXPORTER PECULIARLY AFFECTED:

The Canadian exporter, by reason of the fact that, speaking in a general sense, nearly all the country's exports have a low value in proportion to the space occupied, and a comparatively low value in relation to the cost of transportation, is peculiarly affected by any increases in the cost of transportation, so that it becomes a matter of prime importance to keep such costs to a reasonable rate. While on some commodities the increased rate may be felt on the western movement, this is not the result speaking generally. So far as the western movement is concerned, apparently, the exporters are more concerned with the speed and regularity of service on many articles than they are in the rate; those articles that I now refer to being articles the value of which is large compared to the cost of transportation, this is evidenced by the fact that, in the arrangement that the Conference has made, the Manchester liners are allowed to absorb certain charges, with the result that, on shipment of goods originating in Manchester, the comparative cost works out as follows:—

When shipping at Manchester, cartage from the warehouse to the Manchester docks—2 shillings per ton;

Ship canal toll, 4/4;

Total, 6/4 per ton.

When shipping at Liverpool, cartage to railway station, 1/6;

Railway rate from Manchester to Liverpool, 7/1;

Cartage to docks, 1/6;

Liverpool dock and town dues, 1/10;

Total, 11/11 per ton.

These illustrative figures show a movement on the printed lists which were published prior to the recent advance in railway rates and ship canal tolls. English railway rates have been increased 4 per cent; ship canal tolls, 16 per cent; and Liverpool dock and town dues, 10 per cent. These increases do not affect, however, the proposition that it is considerably cheaper to ship at Manchester than at Liverpool. Notwithstanding this, a large proportion of goods, originating not only in the Midlands but in Manchester itself, are shipped at Liverpool.

The ship canal tolls shown in the above statement I am advised, are now absorbed by the Manchester Liners; so that the saving, shipping by Manchester as against Liverpool, would, on the information with which I have been supplied, amount to 9/11 per ton.

EFFECT ON BRITISH PREFERENCE.

The claim that importers made to the effect that the British preference was absorbed by the increased rates does not appear to be borne out. The following statement supplied by the Conference lines would seem to be approximately correct:—

—	Value.	Preferential.	Rates.		Increase
			1910.	1912.	
Woollen goods.....	£ 90 per 40 c. ft.....	5 % = 90/- per 40 c. ft...	27/6	30/-	2/6
Cotton piece goods.....	£ 80 ".....	5 % = 80/- ".....	22/6	30/-	7/6
Carpets.....	£ 50 ".....	5 % = 50/- ".....	20/-	25/-	5/-
Felt hats.....	£ 30 ".....	7½ % = 45/- ".....	15/-	20/-	5/-
Cutlery.....	£150 ".....	7½ % = 225/- ".....	25/-	35/-	10/-

No shipper has supplied me with any information which supports the general proposition, that is that the British preference has been absorbed. I have no doubt, however, that on articles sold on the Canadian market by the British exporter in close competition with exporters in other countries, the increases in rates of recent years has a detrimental and injurious effect on the traffic, and may account in part for the fall in ratio of British exports.

DEMAND FOR INVESTIGATION JUSTIFIED.

The demand for investigation made by the Canadian Government, and acceded to as above noted by the Imperial authorities, is therefore, justified by the exigencies of the traffic moving in either direction.

The position when action was taken by your honourable body was that steamship conferences were effective so that no competition was afforded beyond the sporadic competition that the tramp freight boat affords. Competition of this character affords no protection whatever to shippers requiring regular shipments in less than cargo lots. In my view, such a condition practically eliminates all competition, and requires some governmental control. This state of affairs obtained at the time of my interview with the steamship representatives in England. Since my return, I notice that the Canadian Pacific Company states that it has withdrawn from the Conference. I am unaware as to whether this action is dictated by a change of policy on the part of that company, or whether it is the natural outgrowth of the conflict existing between the Canadian Pacific Company and the German lines, which are in another Conference. However this may be, I think the present opportunity for investigation in conjunction with the Imperial authorities is of too much value to abandon for this cause.

I should also inform you that I am advised by the Steamship Conference that the so-called loyalty provision under which a charge of 10 per cent was made for primage and which is shown on the official tariffs of the Conference, being General Minimum Tariff No. 11, effective January 1, 1913, and by General Minimum Tariff No. 11A for the summer season of 1913, has been withdrawn. Under the former practice, this charge of 10 per cent was rebated in six months periods to all shippers who shipped no freight except by Conference lines, and has been the subject of much unfavourable comment.

GOVERNMENT CONTROL DIFFICULT.

The matter of governmental control is difficult. Certain conditions which apply to railways do not apply to ocean carriers. The carrying unit is a fixed unit. For this reason the sections of the Railway Act which prevent discrimination cannot well be applied. It would be against the interests not only of the carriers, but, in the long run, of the commerce of the country, if a boat, being unable by reason of the state of the market to obtain a proper cargo at regular rates, could not be loaded with goods which would only move by reason of the special inducement that a cut at the last hour, having reference to that particular sailing, affords.

On the other hand, as at present advised, there would seem to be no reason why standard maximum rates should not be fixed by an independent authority, and that no increase should be allowed in standard maximum rates except with the consent of that authority.

In fixing maximum rates, regard, of course, would be had to, not only the fair rate on any given commodity, but what a fair proportion as between commodity and commodity would be. For example, one of the most serious complaints made against steamship practices is made by the millers, who complain that a spread as between wheat and flour, which existed from 1907 to 1912, inclusive, varying from 1.52 cents for the year to 3.85 per 100 pounds was increased in the early part of this year to 7 cents, resulting, as the flour exporter submitted, in a very unfair preference to the British miller; or, putting it conversely, in improperly penalizing the exporter of flour from this country. There is no doubt that the increase in the spread would militate much to the disadvantage of the Canadian shipper. At the same time, it must also be borne in mind that the milling capacity of Great Britain is constantly increasing. The milling unit is much larger, more economical and of greater efficiency, with the result that, so far as the metropolitan district of London is concerned, the local milling capacity since 1903 has increased from 430 sacks an hour to 850, so that the present milling capacity is well over five million sacks per annum. Large increases have also been noted at both Liverpool and Manchester. This increase in milling capacity is relied on by the carriers as accounting for any difficulty that Canadian exporters of flour may be at rather than increased ocean rates or the variable spread.

POSITION OF CONFEDERATED LINES.

I am not covering in this report the question of the individual advances, nor attempting to deal with their justification, as no useful result can be arrived at without a proper investigation and full production of papers, I should, however, draw to your attention that, in addition to what I have already said, the position of the liners is that all control of any kind is impossible to work out, and would be a great detriment to the shipping industry; and that the increased rates are justified not only by the increased cost of service already noted, but by the peculiar conditions of the Canadian trade.

They point out (1) that very little high-rated package freight is shipped from Canada, and very little specie, ivory, silk, copper, and other high-rated commodities are shipped to Canada (2) that many one-time revenue producing commodities have either disappeared or are shipped in diminishing quantities owing to (a) increased domestic consumption, e.g., butter and cheese; (b) competition of domestic manufacturers, e.g., cotton goods and metals; (c) domestic and United States market conditions, e.g., grain; (3) reduced quantities of general cargo leave westbound fine goods and eastbound grain, flour and lumber—the only goods moving in considerable quantities on which revenue can be secured.

In order that the position of the confederated lines may be fairly placed before you, I attach hereto a copy of an open letter from Mr. W. Black Noble, who attended the unofficial conference I had with the representatives of the liners at Liverpool, to the *Times*.

I should call attention to this paragraph of his letter:—

‘Again, with a very few exceptions, steamship rates are regulated by the law of “supply and demand”; that is to say, should a line, or number of lines in conference together, agree on a rate altogether out of proportion to the value of the goods, it would be impossible for any traffic to move, and automatically the

rate in question would cease to exist for all practical purposes. The result would be that a fresh rate, which would give a just and proper share of the profits of the transaction to both parties interested, would come eventually into existence.'

While not agreeing with some of the conclusions of Mr. Noble's letter, this seems to me to be a frank and fair statement of the present position. Confederated lines (as the lines then were) can, as Mr. Noble states, make a rate altogether out of proportion to the value of the goods, and as a result, extinguish the traffic; and as a further corollary as pointed out by Mr. Noble, eventually a fresh rate which would give a just and proper share of the profits of the transaction (as interpreted by the carrier), to both parties interested would eventually come into existence.

This affirmation by a member of the Conference of a condition under which the business of any given importer could, at any time, perhaps by the carrier's whim, lack of information, or desire for an excessive return, be at least temporarily extinguished, would appear of itself, to call for the fullest investigation.

I desire to express my obligation to the Department of Trade and Commerce and the Montreal Harbour Commission for valuable information from time to time supplied.

I have the honour to be, sirs,

Your obedient servant,

(Sd.) H. L. DRAYTON.

